

2013-2014 Annual Report

Sask**milk**

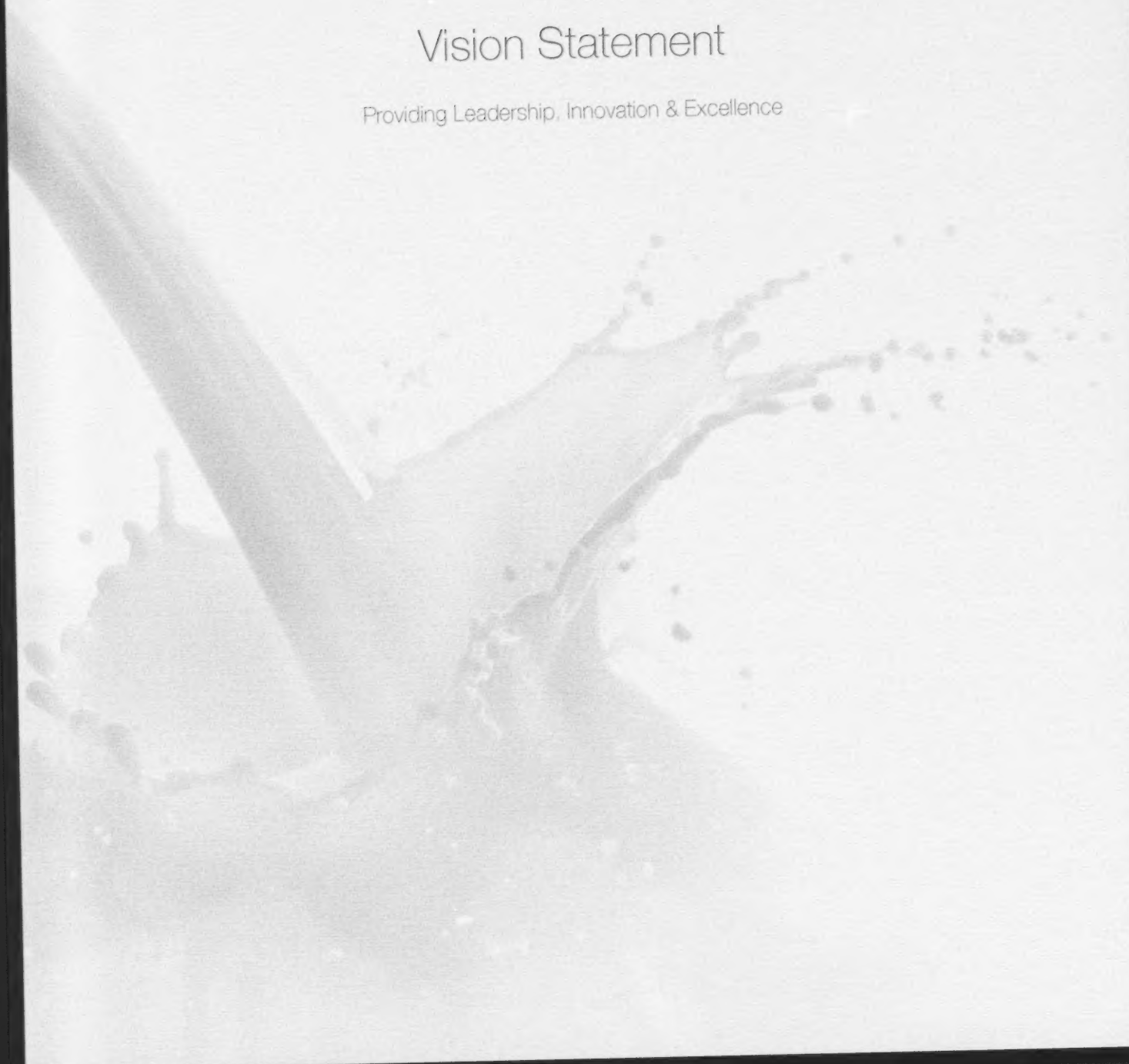


Mission Statement

SaskMilk, dairy farmers growing the dairy industry

Vision Statement

Providing Leadership, Innovation & Excellence



Board of Directors 2013-2014



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General Manager

Anita Medl
Marketing Manager

Jenn Buehler
Administrative Assistant

Doug Miller
Manager Finance & IT Services

Dianne Cardinal
HR Coordinator/Producer Payment Officer

Joy Smith
Manager Policy & Communications

Bev Eckert
Promotions Assistant

Bev Solie
Quota Management Officer

Deb Haupstein
Dairy Specialist

Darlene Weighill
Financial Officer

Chairman's Report

On behalf of the board of SaskMilk I would like to present the report on the activities our marketing board has been involved with and some of the challenges and opportunities that we presently face. I would like to say that one of the major changes was the leaving of Ryan Boughen in January and then having Keith Flaman join us as our new GM on May 1st. Such a change is never easy but thankfully we as board and staff have come through this and are working together as a team and I believe continue to show signs of a healthier and stronger organization. I would like to acknowledge the work done by Doug Miller, Deb Hauptstein, Joy Smith, and Anita Medl, in taking part in the management team to keep the work and activities of SaskMilk going during the months we were without a GM. Keith Flaman came on board May 1st and I would say that the Board welcomes him and the wisdom and knowledge he brings to our organization from working with Holstein Canada for 18 years. The board has worked on governance with Ralph Kikkert from Strive and this has been a help in working together to build a more unified team.

This past year we have put significant staff and board resources in addressing the proposed changes to the Fluid Milk Compositional Standards. The Board would like to thank DFC as well as the other marketing boards, consumers groups, and the Dieticians of Canada for their help and resources in preparing to address these proposed changes. As well, we would like to thank our staff for the work on this; particularly Joy Smith for doing the majority of the work, and also our GM Keith Flaman for helping us in our focus and giving direction to this work. In July we met with the Ministry of Agriculture and our processor and were able to have a good dialogue with them and were able to present SaskMilk's perspective on this in a clear and focused manner.

Important on-going work to address additional refinements to the harmonization of the \$1.92 Add-On collected on fluid milk sales within the WMP is a priority. Most of this work has been done, but negotiation is still being done to harmonize the inhibitor testing within the WMP. We now have a bonus for CQM-registered farms and have a goal for all farms to be registered on CQM by the end of 2015.

Promotion is a large part of our budget and we continue to be involved in and monitor what we do within Saskatchewan, Milk West and with DFC, and continue to work at the challenges of our involvement at these different levels. Milk West fluid promotion continues to show resulting growth through their investment in advertising.

All provincial dairy boards and all dairy producers are members of Dairy Farmers of Canada and participate and are involved in the work that goes on at a national level. One major area of work at DFC is under ProAction. SaskMilk continues to be involved in the ProAction initiative, which will, by 2020, be fully developed and for the most part be implemented. ProAction includes milk quality, CQM, animal care, traceability, biosecurity, and the environment. All of these individual elements will be managed and audited under the umbrella of "ProAction". SaskMilk continues to monitor progress and has input into these elements through the ProAction Advisory Committee as well as on some of the technical committees.

I would also like to mention that there continues to be work done at the national and provincial levels to deal with the surplus SNF problem, and to find solutions that work for both producers and processors. SaskMilk is involved in these national discussions, as is the processor in our province.

There continues to be challenges for our producers as well as our board. We have had and continue to have growth in consumption of dairy products and this means more production is required to meet the demand. To meet the challenges for growth, prepare for what is ahead, and focus on a sustainable dairy industry in Saskatchewan, the Board is taking up a review of some of our main policies, including quota policy and the new entrant policy. The intent is to ensure that producers and the province meet our commitment to the national dairy system and provide the environment for a healthy and productive dairy industry.

Respectfully submitted,
Melvin Foth

General Manager's Report

This past year could be described as a period of reflection and review. The day to day operations were prioritized and focus was maintained on ensuring delivery of basic services.

The staff, in a support role, provided the Board with the research and information required to facilitate them in executing their responsibilities. In a dynamic organization, review of policies and procedures must be on-going to ensure the purpose of a policy remains relevant. The process identifies policies that continue to be applicable and effective, policies that need modifying and others that need to be discarded. Inadequate and outdated policies impede progress.

Work on the Information Management System continues with the completion date unchanged for the end of 2015. Working with eight partners poses many challenges. Old systems and methodologies, along with varied policies and terminology, slow the process. Harmonization whenever and wherever possible is key to keeping costs of the project down and laying the foundation for sharing data and information. When implemented, the new system will make data collection simpler, improve reporting, and allow producers quick and easy access to information specifically related to their farm's milk quality and production management.

SaskMilk, Directors, staff, and appointees participate in developing the elements of ProAction. Traceability, Animal Welfare, Bio-security and Environmental Sustainability, along with Canadian Quality Milk (CQM) are the foundation for ProAction. While standards in all areas are not yet completely established, some of the elements will start to roll out later next year. The impact of a quality program on the buying habits of the consumer should not be underestimated. The dairy industry needs to impress upon the public that the concerns of society and the consumer are being addressed.

The marketing partnership of the four western provinces (MilkWest) continues to work at delivering the milk for health and fitness message. A big effort has been focused on milk and chocolate milk as excellent recovery and refueling drinks for athletes. Many nutritionists are promoting the benefits of natural products in rejuvenating the body rather than low nutritive commercial products.

Processes and procedures will continue to be under constant scrutiny, eliminating unnecessary practices and streamlining activity to better serve milk producers. However, the credibility of the system cannot be jeopardized.

As reported last year, a comprehensive strategic plan was developed with initial objectives implemented. Work has begun on refining that plan and developing a parallel administrative plan to achieve the Board's strategy.

SaskMilk is fortunate to have a conscientious and dedicated staff. They have demonstrated their openness to new ideas and to trying new methods. I want to acknowledge and thank them for their effort and contributions.

Keith Flaman

Dairy Farmers of Canada

The Board of Directors of Dairy Farmers of Canada continues to advance the national policy, lobbying and marketing priorities that are identified by DFC members. We continue to work proactively with our industry partners to manage the sector to improve our system, promote milk and dairy products and maintain an effective and efficient system.

On October 18, 2013, the Government of Canada and the European Union reached an agreement-in-principle on a Comprehensive Economic and Trade Agreement (CETA). This will have concrete and serious long-term impacts on the Canadian dairy sector. DFC is committed to working with the government, the Dairy Processors Association of Canada and the International Cheese Council of Canada to find constructive solutions to effectively mitigate the negative impact of the CETA deal on dairy farmers and cheese makers.

During the 5-year implementation period, the Canadian government must work with the sector to maintain a strong Canadian dairy industry and a solid consumer confidence in Canada's dairy products. At the same time, the Canadian government has a role to play with the industry in investing in the domestic cheese markets to drive innovation and expansion over and above the projected market growth.

TPP countries are still awaiting the outcome of the U.S - Japan bilateral process, which could significantly influence the ambition of the TPP. Discussions about sensitive questions, including agriculture, will only be addressed later in the end-game, as part of the overall balancing act. Progress continues to be made, but the real negotiation has not yet begun. Other issues of concern for supply management, including tariff negotiations, provisions regarding import state trading enterprises, cheese standards, and the so-called 'cheese annex', remain on the list of issues to be addressed at a later stage. Since December 2012, when Canada officially joined the TPP, DFC and the SM-5 have had a presence in all negotiation rounds.

On November 12-13, 2013, DFC held an Environment Symposium, where members were joined by representatives from the processing industry, retailers, life cycle analysts, agronomists, environmentalists, engineers and scientists. The symposium aimed to examine dairy farmers' commitments to environmental sustainability and to find ways to move forward on the environment module of proAction.

On a longer term basis, DFC is on pace to fully implement the six modules of the proAction Initiative, as planned, by 2023. DFC is working with farmers on a strategic road map to show their commitment for a strong and sustainable future for Canadian dairy farms. The proAction Initiative will be carried out by farmers for farmers, with discussions with stakeholders and the food value chain. This initiative demonstrates our dairy farmers' continued commitment to offer safe, high-quality Canadian milk and dairy products that are produced responsibly.

On March 21st, 2014, DFC welcomed the government's announcement of close to \$945,000, under the AgriMarketing Program, for dairy traceability and the proAction Initiative. This investment will help develop programs that confirm dairy farmers' commitment to continuous improvement.

As proAction's Milk Quality module is now completed, DFC has started to tell consumers about it. In the spring, the **CanadianMilk.ca** website was launched with 6 on-farm videos showing farmer's commitment to quality. In the summer, CBC hosts Steven and Chris did a segment on a farm and, in September, Breakfast Television and CTV Morning Live Atlantic aired segments from six dairy farms across the country. Viewers were shown a typical day on a Canadian dairy farm and heard straight from the farmer on topics such as: keeping cows and calves healthy and happy, the milking and

testing process and transportation to the processor.

The proAction Animal Care module is closer to development, with several Saskatchewan farms participating in the pilot. SaskMilk continues to place high priority on animal care, and is committed to working with DFC and other provinces to develop and implement standards.

Also in September 2014, 89% of Canadian dairy farms were on the Canadian Quality Milk program, and registered farms continue to demonstrate ongoing compliance. As we move towards total registration, farmers are collectively demonstrating their proactive commitment to food safety and responsible food production. DFC continues to co-operate with the Canadian Cattlemen's Association and its other partners in the cattle industry to implement traceability from farm to fork.

Marketing

DFC continues to promote the Canadian dairy industry and emphasize the benefits of supply management for Canadians, as well as the true story of Canadian dairy farmers. The Farmers' Voice blog, as well as the **Yourmilkca** Facebook page are regularly updated and populated with new good stories, getting increasing numbers of likes and shares. DFC is always looking for new stories – don't hesitate to share yours! The DFC Board regularly reviews the communications strategy to ensure adequate resources are provided for public relations activities that support sharing the story of Canadian dairy farmers to the general public.

DFC's brand marketing strategies use a large communication mix to promote and incite consumption of Canadian dairy products and build awareness, familiarity, and preference for dairy products bearing the 100% Canadian Milk symbol. It includes mass media (TV, print, online, social media), in-store programs, sponsorships, fairs and exhibitions, public relations and business development initiatives.

Positioning the 100% Canadian Milk symbol as a confirmation of the Canadian origin of the milk in dairy products is essential. In March 2014, a new national campaign was launched to build consumer confidence in milk products bearing the 100% Canadian Milk symbol. The objective of the campaign was to demonstrate that Canadian dairy products are produced according to the highest quality standards by farmers who care about their work. This message, supported by the new web site CanadianMilk.ca, is also the focus point of the six videos starring dairy farmers from across Canada, as previously mentioned.

DFC also works closely with dairy processors and retailers to increase the use of the 100% Canadian Milk symbol on their packaging and in their communications. On October 15, 2014, DFC joined Domino's Pizza of Canada as they announced a major partnership by committing to use only cheese made from 100% Canadian milk on all its pizzas and other menu items. Domino's is the first national pizza company in Canada to have made this commitment. This will have a positive impact on the Canadian dairy industry since the pizza company purchases over 4.8 million kg of cheese each year.

After a successful first year in market, the national (excluding Quebec) *Milk Every Moment* campaign, a partnership between DFC, BC Dairy Association, Alberta Milk, SaskMilk and Dairy Farmers of Manitoba, continued in 2014. *Milk Every Moment* aims to reconnect teens and adults with drinking milk and create an incremental consumption opportunity. On August 7, 2014 the new culinary webseries *Snack Masters* was launched, profiling some of Canada's top chefs preparing their favourite recipes that pair with milk. The series can be found on **MilkEveryMoment.ca**. Through the same partnership, the "Great Cream Challenge" using the *Any Day Magic* web site was launched to increase cream usage in every day meals. It is estimated that over 92,000 visitors went online and consulted 473,000 pages between June and December. In July 2014, a "Berry and Cream" public relations campaign was also implemented with four chefs who created two recipes each, from

appetizers to main dishes and desserts, generating more than 140 media stories.

The 2015 Milk Calendar which also encourages Canadians to consume more dairy products made from 100% Canadian Milk was launched on November 15, with over 2.5 million copies distributed across Canada in newspapers and targeted mailing. Since 2015 marks Dairy Farmers of Ontario's 50th anniversary, the Milk Calendar celebrates that milestone with a special edition which was distributed in Ontario only featuring DFO's history. The regular edition was distributed in the Atlantic and Western provinces.

DFC's *Recharge with Milk* campaign in Ontario and the Maritimes continued to run for the seventh year targeting physically active individuals while positioning chocolate milk as an excellent post-exercise recovery beverage. A contest titled **Recharge Rewards** was launched in March 2014, encouraging athletes to share their post-workout routine on social media for a chance to win the ultimate marathon experience: a customized training program developed by Canadian triathlete Simon Whitfield.

The national *Get Enough* nutrition campaign continues to encourage consumers to get the recommended servings of milk and alternatives with a comprehensive set of tools, including television, magazine and online ads, digital and television integrations, educational vignettes and in-store promotions. To help Canadians track their daily servings of each of Canada's Food Guide food groups, DFC developed the Get Enough Helper app, a free mobile application for smartphones that has been top ranked in the health and fitness category in the app store. Each day that Canadians track their food servings using the app DFC donates one dollar on their behalf to one of the following great causes (up to a maximum of \$50,000 per organization): Heart and Stroke Foundation, Osteoporosis Canada or the Colorectal Cancer Association of Canada.

For a broad list of DFC's activities related to lobby, marketing and nutrition, please visit **dairyfarmers.ca**. Stay tuned for increased communications from DFC in the coming year in response to the growing complexity of the food business and the need for you, as dairy farmers, to have a clear understanding of the value of your investments in defending and growing the market for Canadian milk.

Issac Kassen

Research Report

The new research and teaching dairy unit (Rayner Centre) has now seen one full year of operation. We are very pleased to report that with some minor glitches, it has exceeded our wildest expectations.

There are many research projects underway that will not only enhance the dairy industry, but will also increase market opportunities in the grains and oilseed sectors.

The barley and corn silage trials are ongoing (the beef unit is also involved with this project), and the knowledge gained may ultimately lead to more variety development which is a good thing. The glycerol project has shown phenomenal results that is hoped will be duplicated with cooperating herds. Glycerol is a bi-product of the bio-diesel industry that currently has very little value, but what has been learned is that feeding it to early lactation cows with high fat canola meal increases production and increases the components of the milk (butterfat and protein), while at the same time maintaining the cow's body weight. This would have a great impact when it is time to re-breed the cow.

The omega3 project continues to show positive health benefits to the cow, and ultimately the humans who consume the milk and meat produced. The source of the omega3 is derived primarily from flax with some pulse crops present in the ration.

By building the new dairy unit on campus, it has allowed for much better teaching opportunities for both the faculty and the U of S students. As an example of this in action not long ago, there were 120 students from one group and 20 Japanese exchange students from another group all being taught at different stations throughout the centre at the same time. Observation of this "teaching in action" was from the cat walk with the new interim president of the university; there is a great deal of pride in knowing that our vision for the future is a success - this dream was 12 years in the making!

The public viewing gallery has become a "destination point" on the campus with many international delegations touring the facility, which in turn is opening up discussions with countries such as China and India who are both seeing rapid growth in their dairy sectors. Both of these countries have expressed a strong desire to form a working relationship with Saskatchewan for information transfer, breeding stock purchase, and high quality feed purchase. It is my opinion that the international collaboration is directly related to the Rayner Centre and its public viewing gallery. I believe that we are on the doorstep of many good things happening to all agriculture sectors in our province because of SaskMilk's commitment to this project; the new dairy unit has helped to put Saskatchewan in the spotlight for international trade.

Jack Ford

Production Report

As of July 2014, Saskatchewan had 166 dairy operations in the province.

The total milk shipped for the year was 233,138,817 litres, which is an increase over the previous year of 1.65%. Butterfat production for the dairy year was 9,198,334 kilograms, up from the previous year by 245,294 kilograms, an increase of 2.74%.

In the Western Milk Pool, Class 1 fluid sales were 892,875,536 litres; this is down from the previous year by 10,331,554 litres, or 1.14%. Saskatchewan's share of Western Milk Pool fluid sales was 6.81%.

The average milk composition was:

Butterfat	3.9454%
Protein	3.3423%
Other Solids	5.7010%

Average blend price:

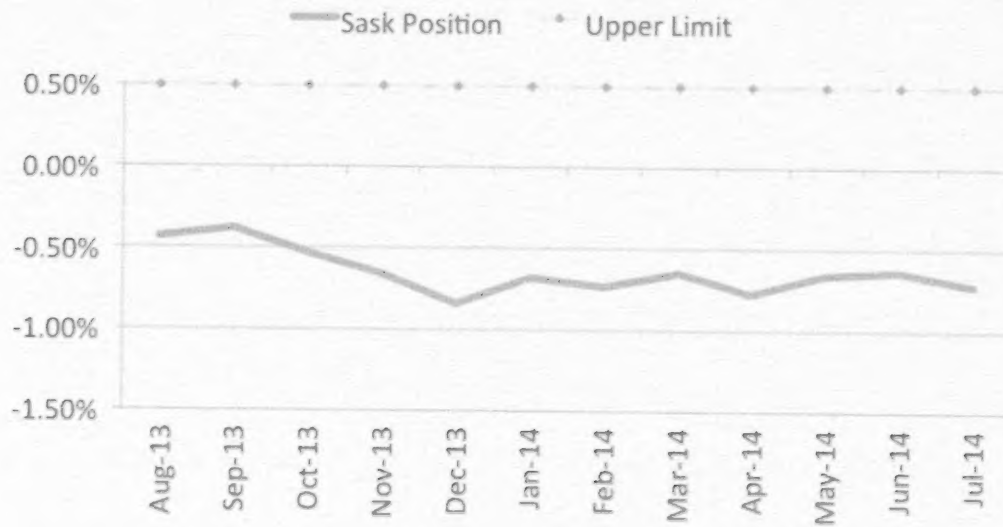
All Milk	\$82.65/hl
Butterfat	\$21.01/kg

Average component prices:

Butterfat	\$11.74651/kg
Protein	\$8.746506/kg
Other solids	\$1.280801/kg

	Monthly Total Production (kgs bf)	Monthly CDC Allocation (kgs bf)	Monthly Over/Under Production (kgs bf)	Cumulative Quota Filled	Daily shipped (kgs bf)
Aug-13	759,356	747,743	11,613	101.55%	24,495
Sep-13	743,013	738,079	4,933	101.11%	24,767
Oct-13	782,805	796,797	-13,992	100.11%	25,252
Nov-13	758,797	769,783	-10,986	99.72%	25,293
Dec-13	794,733	811,844	-17,111	99.34%	25,637
Jan-14	789,853	775,576	14,277	99.76%	25,479
Feb-14	705,370	709,446	-4,076	99.71%	25,192
Mar-14	778,842	771,238	7,604	99.87%	25,124
Apr-14	759,580	771,917	-12,337	99.71%	25,319
May-14	794,737	784,411	10,326	99.87%	25,637
Jun-14	761,220	759,304	1,916	99.91%	25,374
Jul-14	770,028	777,828	-7,800	99.83%	24,840
Totals	9,198,334	9,213,967	-15,634	99.83%	25,201

SK Milk Production



Saskmilk



Financial Statements
Saskatchewan Milk Marketing Board
For the 12 months ended July 31, 2014



Management's Responsibility for the Financial Statements

To the Board of Directors:

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian accounting standards for not-for-profit organizations and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors are composed entirely of Directors who are neither management nor employees of Saskatchewan Milk Marketing Board ("SaskMilk"). The Board of Directors is responsible for overseeing management in the performance of its financial reporting responsibilities, and for recommending approval of the financial statements to the Board. The Board of Directors has the responsibility of meeting with management and the external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Board of Directors is also responsible for recommending the appointment of the SaskMilk's external auditors.

MNP LLP, an independent firm of Chartered Accountants, is appointed by the Board of Directors to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Committee and management to discuss their audit findings.

October 27, 2014

Original Signed by Keith Flaman
General Manager

Independent Auditors' Report

To the Directors of Saskatchewan Milk Marketing Board:

We have audited the accompanying financial statements of Saskatchewan Milk Marketing Board ("SaskMilk"), which comprise the statement of financial position as at July 31, 2014, and the statements of operations and changes in net assets, and cash flows for the year ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of SaskMilk as at July 31, 2014 and the results of its operations, changes in net assets and cash flows for the year ended in accordance with Canadian accounting standards for not-for-profit organizations.

Regina, Saskatchewan
October 27, 2014

MNP LLP
Chartered Accountants

Saskatchewan Milk Marketing Board

Statement of Financial Position

As of July 31, 2014

	2014	2013
Assets		
Current		
Cash	\$3,114,105	\$2,873,113
Accounts receivable	8,545,637	9,860,481
GST receivable	10,124	20,198
Prepaid expenses	180,184	87,097
	11,850,050	12,840,889
Capital Assets (Note 3)	291,518	347,985
	\$12,141,568	\$13,188,874
Liabilities		
Current		
Accounts payable and accrued liabilities	\$9,610,860	\$10,122,872
PST Payable	-	-
	9,610,860	10,122,872
Internally Restricted Fund - Industry Development (Note 8)	689,898	429,137
General Fund	1,840,810	2,636,865
Net Assets	2,530,708	3,066,002
	\$12,141,568	\$13,188,874

Commitments (Note 5)

Approved by the Board of Directors

Original signed by Melvin Foth

Director

Original Signed by David Entz

Director

See accompanying notes to the financial statements

Saskatchewan Milk Marketing Board

Statement of Operations

For the 12 months ended July 31, 2014

	BUDGET (Note 9) (Unaudited)	2014	2013
Revenue			
Milk sold to processors	\$180,000,000	\$178,201,374	\$175,737,087
Milk pools (Note 4)	9,411,000	15,156,462	10,859,631
Milk pool administration and assessment fees (Note 10)	2,049,750	2,443,216	1,767,189
Interest	72,000	80,366	79,669
Milk quality penalties	240,000	88,821	285,232
Licence fees and miscellaneous	479,570	554,688	375,369
Promotion Levy	3,450,000	3,497,607	3,211,864
Grants		423,213	143,897
	195,702,320	200,445,747	192,459,938
Expenses			
Milk purchased from producers	189,871,500	193,902,169	186,755,800
Administrative expense	1,578,586	1,768,580	1,186,202
DFC Industrial Levy and Membership	1,650,419	1,674,299	1,501,637
Milk West	1,095,260	1,576,263	781,064
Salaries	857,680	923,210	726,293
Promotion and Nutrition Activities	750,452	294,118	247,435
Travel, sustenance and vehicle expense	254,523	223,832	226,450
School Milk Program	173,500	151,456	99,344
Employee benefits	206,920	146,465	156,816
Rent	138,199	137,546	127,806
Honoraria	129,225	98,525	103,190
Amortization	80,000	65,828	63,708
Legal	45,000	19,469	35,458
Cost of production study	22,000	(719)	29,245
	196,853,264	200,981,041	192,040,448
Excess of revenues (expenses)	(\$1,150,944)	(\$535,294)	\$419,490

See accompanying notes to the financial statements

Saskatchewan Milk Marketing Board

Statement of Changes in Net Assets

For the 12 months ended July 31, 2014

	General Fund	Internally Restricted for Industry Development	2014	2013
Net assets, beginning of year	\$2,636,865	\$429,137	\$3,066,002	\$2,646,512
Excess of revenue (expenses)	(534,294)	-	(534,294)	419,490
Net assets transferred in	-	-	-	-
Interfund transfers (Note 8)	(260,761)	260,761	-	-
Net assets, end of year	\$1,840,810	\$689,898	\$2,530,708	\$3,066,002

See accompanying notes to the financial statements

Saskatchewan Milk Marketing Board

Statement of Cash Flows

For the 12 months ended July 31, 2014

	2014	2013
Cash Flows from Operating Activities:		
Cash receipts from processors and fees	201,512,260	191,357,800
Interest received	80,366	79,669
Cash paid to producers	(200,272,597)	(191,100,391)
Cash paid to employees and board members	(1,069,675)	(883,109)
Cash flows from operating activities	250,354	(546,031)
Cash Flow used for Investing Transactions:		
Purchase of tangible capital assets	(9,362)	(30,279)
Net increase in cash during the year	240,992	(576,310)
Cash position, beginning of year	2,873,113	3,449,423
Cash position, end of year	3,114,105	2,873,113

See accompanying notes to the financial statements.

Saskatchewan Milk Marketing Board

Financial Statement Notes

For the period ended July 31, 2014

1. Incorporation

The Saskatchewan Milk Marketing Board (SaskMilk) is a producer marketing board established under the Agri Food Act effective October 1, 2010. The Board's general role and responsibility is to design and implement dairy policies and programs for the benefit of producers and other industry stakeholders.

In particular, the Board is responsible for:

- collection and purchase of producer milk;
- transport and sale of milk to distributors and processors; and
- compensate producers through a multiple component pricing system and manage production levels in conjunction with the National and Regional Marketing Agreements; and
- collect and administer fees or levies required to operate the provincial milk pool, and to fund Board program activities (promotion and nutrition) of benefit to the industry.

The Board provides leadership to the Saskatchewan dairy industry in addressing provincial, regional, national and international issues. It also promotes the interests of Saskatchewan producers at Western Milk Pool and Canadian Milk Supply Management Committee meetings.

Industry stakeholders' participation in policy and program consultations is facilitated primarily through semi-annual and annual producer meetings.

2. Significant accounting policies

The financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations (ASNPO).

a) Revenue Recognition

Revenue from the milk sold to the processors is recognized when the milk is delivered to the processor.

b) Cash

Cash is comprised of monies on deposit with the bank.

2. Significant accounting policies (continued)**c) Capital Assets**

Capital assets are recorded at cost and are amortized over their estimated useful lives. Amortization expense is calculated using the straight line amortization at the following annual rates:

Leasehold Improvements	10 years
Milk Payment System	10 years
Office furniture and equipment	3-10 years
Storage container	20 years

d) Use of estimates

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Accounts receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary. These estimates and assumptions are reviewed periodically and, as adjustments become necessary they are reported in excess of revenues and expenses in the periods in which they become known.

e) Income taxes

SaskMilk is incorporated as a not-for-profit organization and is exempt from income taxes.

f) Financial Instruments

SaskMilk recognizes its financial instruments when they become party to contractual provisions of the financial instrument. All financial instruments are initially recorded at their fair value. SaskMilk financial instruments consist of cash, accounts receivable, and accounts payable. SaskMilk subsequently measures all financial instruments at amortized cost.

Transaction cost and financing fees are added to the carrying amount for financial instruments subsequently measured at amortized cost.

Saskatchewan Milk Marketing Board

Financial Statement Notes

For the period ended July 31, 2014

2. Significant accounting policies (continued)

g) Financial Asset Impairment

SaskMilk assesses impairment of all of its financial assets measured at cost or amortized cost. SaskMilk groups assets for impairment testing when available information is not sufficient to permit identification of each individually impaired financial asset in the group. Management considers whether the issuer is having significant financial difficulty and/or whether there has been a breach in contract in determining whether objective evidence of impairment exists. When there is an indication of impairment, SaskMilk determines whether it has resulted in a significant adverse change in the expected timing or amount of future cash flows during the year. If so, SaskMilk reduces the carrying amount of any impaired financial assets to the highest of: the present value of cash flows expected to be generated by holding the assets and the amount that could be realized by selling the assets. Any impairment, which is not considered temporary, is included in current year excess of revenues over expenses.

SaskMilk reverses impairment losses on financial assets when there is a decrease in impairment and the decrease can be objectively related to an event occurring after the impairment loss was recognized. The amount of the reversal is recognized in the excess of revenue (expenses) in the year the reversal occurs.

h) Industry Development Fund

The Industry Development Fund is revenue collected from the Processor that is internally restricted by the Board for the following programs: Inhibitor Reagent Testing, Environmental Compliance, Milk Quality, Fluid Shrink (Milk Metering), and Quality Bonus (CQM)

3. Capital Assets

	Cost	Accumulated Amortization	2014 Net Book Value	2013 Net Book Value
Milk Payment System	\$349,246	\$134,612	214,634	248,709
Leasehold Improvements	60,928	22,691	38,237	44,609
Office furniture and equipment	113,605	74,958	38,647	54,667
	<u>\$523,779</u>	<u>\$232,261</u>	<u>\$291,518</u>	<u>\$347,985</u>

Saskatchewan Milk Marketing Board

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4. Milk Pools

Effective August 1, 1991 (and continued August 1, 2003), the previous Saskatchewan Milk Control Board entered into an arrangement with its counterparts in Prince Edward Island, Nova Scotia, New Brunswick, Quebec, Ontario, Manitoba, Alberta, British Columbia and the Canadian Dairy Commission (CDC). As of September 2006, Newfoundland and Labrador have signed on. This arrangement provides for pooling of revenues from sales of milk components in industrial and special classes of milk sold in domestic and external markets. CDC administers the Industrial and Special Class Pool.

Effective March 1, 1997, the previous Saskatchewan Milk Control Board entered into an arrangement with its counterparts in British Columbia, Alberta and Manitoba and CDC. This arrangement provides for pooling of all revenues from sales of Fluid Milk and Industrial Milk, including special classes, by producers to processors in the four western provinces. The purpose of the arrangement is to pool producer returns as if the western provinces constituted a single market. CDC administers the Western Milk Pool.

The Saskatchewan Milk Marketing Board has replaced the former Saskatchewan Milk Control Board in all previous agreements.

Based on each province's monthly utilization, CDC will either distribute a portion of, or require a contribution to the Industrial and Special Class Pool and Western Milk Pool. Saskatchewan received contributions of \$15,156,462 (2013 - \$10,859,631) from the milk pools.

5. Commitments

SaskMilk has entered into a lease for office space. The future minimum lease payments are as follows:

2015	\$92,296
2016	\$95,088
2017	\$98,889
2018	\$102,845
2019	\$106,955

SaskMilk has a commitment to Milk West. In accordance with the related agreement, if the Board were to withdraw from the partnership it would still be responsible for its' full contribution to the Milk West program for the 12 months following the notice of withdrawal. The contribution is reviewed and updated annually.

6. Pension plan

SaskMilk participates in the Public Employees Pension Plan, a defined contribution or benefit plan. SaskMilk obligations to the Plan are limited to 7.50% (2013 – 7.25%) of earnings for all employees for current services. During the year, SaskMilk contributed \$56,204 (2013 - \$50,010) to the plan, which is recorded as an expense.

7. Financial instruments

a) Fair value

SaskMilk financial instruments consist of cash, accounts receivable, and accounts payable. The carrying amount of the Organization's financial instruments approximates their fair value, due to their relatively short-term maturities.

b) Credit risk

SaskMilk is subject to credit risk as all of the Board's milk sales are to one processor.

SaskMilk is also exposed to credit risk in accounts receivable in the event that a customer fails to honour its obligations. Credit risk is managed with regular credit assessments and active collection activity. In the event that an account is deemed uncollectible, the account will be written off as a bad debt.

c) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. SaskMilk has no significant exposure to interest rate risk.

8. Industry Development Fund

A portion of the Add-On Levy on Class 1 milk is designated for Internally Restricted Operations – Industry Development.

During the year, a total of \$260,761 (2013 - \$327,501) was designated for the Industry Development Fund. The revenue for the IDF was \$501,753 (2013 - \$437,321) and expenses were \$240,992 (2013 - \$109,820) for Inhibitor Testing Reagent – paid to the Processor, Quality Milk Bonus – paid to the Producers, and administration for the CQM Program, Market Development, New Entrant and Information Technology.

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9. The budgeted figures provided in the statement of operations and changes in net assets are presented for information purposes only and are unaudited. The 2013 – 2014 Budget was approved by the Board of Directors on June 19, 2013.
10. Included in the Milk pool administration and assessment fees is the following:

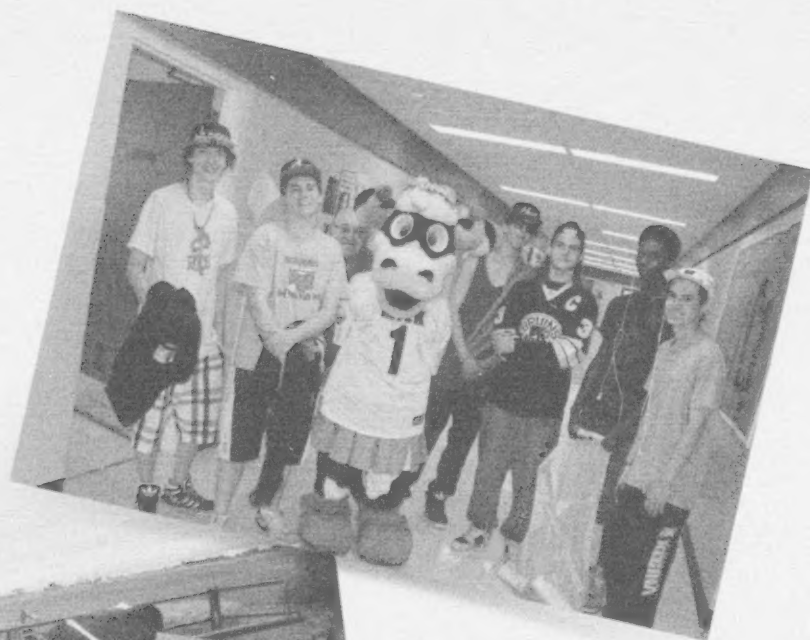
	2014	2013
Add-on revenue	\$1,444,872	\$1,092,737
SMMB assessment	502,966	494,856
Fluid shrink	216,704	159,082
Component testing	20,350	20,513
CDC surplus refund	338,662	-
Adjustments	(80,338)	-
	\$2,443,216	\$1,767,188

Add-on Revenue – \$1.92/hL effective February 1, 2014 is collected from the processor for the following programs:

PROGRAM	LEVY		DESCRIPTION
Environmental	0.47/hL	Pooled	Portion to be used to reduce haulage cost to producer re: truck washing – rate based on Class 1A&1B sales. Portion to be used for an environmental plan on farm.
Inhibitor Testing Reagent	0.18/hL		Portion paid back to Processor monthly based on rate established by Processor and charged on the number of loads per month.
Milk Quality Testing	0.21/hL	Pooled	Portion to be used for component testing.
Administration	0.40/hL	Pooled	Revenue for SaskMilk.
Quality Bonus	0.40/hL	Pooled	Paid monthly to producers who are registered on CQM at a rate based on the number of producers registered.
Fluid Shrink (Milk Metering)	0.26/hL	Pooled	Paid back to producers monthly.

11. Certain comparative figures have been reclassified to conform with current year presentation.





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